

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 DAMASCUS 7263

LIMDIS

E.O. 11652: GDS

TAGS: ECON, EAID, SY

SUBJECT: FRENCH VIEWS ON SYRIAN ECONOMY: GENERAL VIEWS,
DEVELOPMENT, RELATIONS WITH EEC, EFFECTS OF
LEBANESE CRISIS, AND AID TO SYRIA

REF: (A) DAMASCUS 7062, (B) DAMASCUS 7083

1. SUMMARY. FRENCH COMMERCIAL/ECONOMIC COUNSELOR PROVIDED
ECONOFF WITH GENERAL ASSESSMENT BY FRENCH EMBASSY OF SYRIAN
ECONOMIC SITUATION. FRENCH SEE SYRIAN ECONOMY AS BASICALLY
HEALTHY. ECONOMY FACED FOREIGN EXCHANGE CRUNCH EARLY 1976
OVERCOME (ACCORDING TO FRENCH) BY RENEWED PAYMENTS SAUDI/
KUWAITI AID JULY-AUGUST 1976. PRESENT STAGNATION IN DEVELOP-
MENT ACTIVITY ATTRIBUTABLE MORE TO NEW PRIMIN'S DESIRE CLEAN
HOUSE AND RENEW AND REVISE ALL DEVELOPMENT PROJECTS RATHER
THAN TO FOREIGN EXCHANGE SHORTAGE. EEC NEGOTIATIONS WITH
SYRIA TO BEGIN SOON. SYRIANS HAVE EXAGGERATED IDEAS OF
AID AVAILABLE FROM EEC AND IN FOR RUDE LETDOWN. EEC

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WILL BE ENGAGED IN POLITICALLY-INSPIRED AID PROJECT,
NOT IN SERIOUSLY PURSUING ASSOCIATION. FRENCH VIEW

LEBANESE CRISIS AS NARROW PLUS FOR SYRIA. CLOSING OF BEIRUT AND TRIPOLI HARBORS HAS VASTLY INCREASED SYRIAN TRANSIT REVENUES. SHIFTING ARAB GULF TOURISM IN PART TO SYRIA CERTAIN TO BE PERMANENT EVEN IF LEBANON FULLY RECOVERS (WHICH FRENCH DOUBT). ONLY NEGATIVE ASPECTS LEBANESE CRISIS IN ECONOMIC SECTOR HAVE BEEN INFLATIONARY PRESSURES BROUGHT BY FREESPENDING LEBANESE QTE REFUGEES UNQTE AND ERRATIC NATURE OF ARAB AID. POLITICAL DANGERS LEBANESE CRISIS FAR OUTWEIGHT ECONOMIC. SOVIET PRESSURES ON SYRIA LIMITED TO MILITARY SPHERE BECAUSE SOVIET AID PROJECTS (AFTER EUPHRATES DAM COMPLETED) IN NON-CRITICAL SECTORS AND NO NEW PROJECTS OFFERED. SOVIET PRESSURE ON SYRIAN MILITARY, IF IT EXISTS, IS QTE STUPID UNQTE; WOULD ONLY DRIVE SYRIANS INTO ARMS OF WEST. ARAB AID TO SYRIA NOW ON STREAM SO LONG AS ASAD MAKES NECESSARY IF DEGRADING OBEISANCES TO RIYADH. MUCH OF THIS ASSESSMENT CONTRADICTS EMBASSY REPORTING REFTELS. END SUMMARY.

2. FRENCH ECONOMIC COUNSELOR MICHEL DUGER GAVE ECONOFF FRENCH ASSESSMENT SYRIAN ECONOMY. FRENCH SEE SYRIAN ECONOMIC SITUATION AS BASICALLY HEALTHY. SYRIA FACED FOREIGN EXCHANGE CRUNCH EARLY 1976 WHEN ARAB AID CUT OFF BECAUSE OF SAUDI UNHAPPINESS AT SYRIA'S LEBANESE POLICY. DAMASCUS COPE BY, IN EFFECT, DELAYING NUMEROUS DEVELOPMENT PROJECTS AND APPLYING FUNDS TO OPERATING BUDGET, AS WELL AS DELAYING PAYMENTS AND ADJUSTING EXCHANGE RATES. DUGER BELIEVES SITUATION NOW RELIEVED. NEW SAUDI AND OTHER ARAB AID PAYMENTS WERE MADE IN LATE SUMMER 1976. (EXAMPLE: ONE FRENCH CONTRACTOR, WHO HAD BEEN DELAYED, RECENTLY PRESENTED BILL FOR INCREASED COSTS ABOVE CONTRACT PRICE AND WAS PAID PROMPTLY.) DUGER EMPHATIC THAT SYRIANS NOT FACING FOREIGN EXCHANGE CRUNCH. INDICATORS THE FRENCH WATCH, SUCH AS ISSUANCE RATE FOR IMPORT PERMITS AND EXCHANGE FACILITIES, SHOW NO CONCERN ON PART MONETARY AUTHORITIES AT THIS TIME WITH EXCHANGE PICTURE. (CENTRAL BANK COMMENTS OFFER POSSIBLE COOROBORATION THIS ASSESSMENT: ONE SENIOR CENTRAL BANK OFFICIAL TOLD AIDOFF THAT PROBLEMS CREATED BY LEBANESE CRISIS WERE ESSENTIALLY LOCAL CURRENCY PROBLEMS.) SOME INDICATORS HAD BEEN NEGATIVE IN FIRST
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HALF 1976. DUGER EMPHATIC SYRIAN FOREIGN EXCHANGE POSITION GOOD, THOUGH LIKE THE REST OF US HE HAS NO FIGURES ON RESERVE POSITION TO BACK UP HIS OPINION.

3. FRENCH SEE PRESENT DELAY IN DEVELOPMENT PLANNING AND IMPLEMENTATION AS PRIMARILY POLITICAL. KHULAYFAWI DETERMINED TO ACT AS NEW BROOM AND TAKE PERSONAL CONTROL OF ECONOMY. HE REVIEWING ALL DEVELOPMENT PROJECTS FOR EVIDENCE THEY INSPIRED BY DESIRE FOR PERSONAL GAIN ON PART OF RESPONSIBLE OFFICIALS. (IN THIS CONTEXT,

FRENCH BELIEVE DEPRIMIN PLANNING HILOU FIRED BECAUSE OF SUSPICION HE TOOK GRAFT.) MANY MINISTERS NOW AFRAID PROPOSE EVEN LEGITIMATE PROJECTS FOR FEAR THEIR MOTIVES WILL BE SUSPECT. DEPRIMIN FOR ECONOMY SHAYYA IS KHULAYFAW'S MAN BUT, IN FACT, HAS NO AUTHORITY OF HIS OWN IN CONTRAST HIS PREDECESSOR HAYDAR. CONSEQUENTLY, SYRIAN GOVERNMENT PROCEEDING ONLY WITH PROJECTS ALREADY UNDERWAY AND DUGER DOUBTFUL ANY NEW PROJECTS WILL BE APPROVED BEFORE EARLY 1977.

4. EEC NEGOTIATOR CHAUSSER (PHONETIC) EXPECTED IN SYRIA LATE NEXT MONTH. DUGER STATED EEC VIEWS AID TO ALL NON-EUROPEAN MEDITERRANEAN COUNTRIES AS PURELY POLITICAL. EEC WILL OFFER A SMALL AID PACKAGE AND ASKS LITTLE FROM SYRIA IN TERMS OF PREFERENTIAL TREATMENT. (EEC ALREADY HAS LARGEST SHARE OF THIS MARKET.) SYRIA IN RETURN CAN EXPECT LITTLE PREFERENTIAL TRADE TREATMENT FROM EEC. OF PRINCIPAL SYRIAN EXPORTS TO EEC, COTTON AND OIL PRICES ARE CURRENTLY SO GOOD SYRIANS CAN TAKE CARE OF THEMSELVES, AND CITRUS FRUITS ARE SO SENSITIVE FOR COMMON AGRICULTURAL POLICY THAT ANY PREFERENCE TO SYRIA (OR EGYPT OR JORDAN) IS OUT. EEC DOES NOT FORESEE ANY SERIOUS LIKELIHOOD EXPANSION SYRIAN GRAIN EXPORTS TO EEC. (FRENCH BELIEVE INCREASED DOMESTIC CONSUMPTION WILL ABSORB ANY INCREASES IN PRODUCTION.) SIMILARLY, EVEN IF CONCESSIONS GRANTED TO SYRIAN MANUFACTURERS, SUCH EXPORTS TO EEC WILL BE INSIGNIFICANT THROUGH EARLY 1980'S, AT LEAST. DUGER EXPECTS EEC WILL OFFER SOME INSIGNIFICANT TARIFF CONCESSIONS TO SYRIA AND FUND A FEW HIGH-VISIBILITY MEDIUM TO LARGE DEVELOPMENT PROJECTS.
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5. ODDLY, IN CONTRAST TO ALMOST ALL OTHER EMBASSY CONTACTS, FRENCH SEE LEBANESE CRISIS AS SLIGHT PLUS FOR SYRIAN ECONOMY. CLOSING OF LEBANESE ENTREPOTS OF BEIRUT AND TRIPOLI HAS LED TO SHIFT OF TRANSIT TRADE TO SYRIAN PORTS AND MANIFOLD INCREASE SYRIAN TRANSIT REVENUES. CONSEQUENT CONGESTION IN SYRIAN PORTS HAS HELPED GENERATE LARGE-SCALE SAUDI AID FOR THEIR EXPANSION, AN EXPANSION WHICH WILL ENSURE DOMINANT POSITION OF SYRIA IN TRANSIT TRADE IN FUTURE, REGARDLESS OF WHAT HAPPENS TO LEBANON. SIMILARLY, DIVERSION OF AVIATION TRAFFIC THROUGH DAMASCUS HAD LED TO IMPROVEMENTS IN FACILITIES HERE THAT ENCOURAGE AIRLINES TO CONTINUE SERVICES HERE. SHIFTING OF SOME OF ARAB GULF SUMMER TOURISM TO SYRIA MAY ALSO BECOME PERMANENT. DUGER BELIEVES NEGATIVE EFFECTS OF REFUGEES ON SYRIAN ECONOMY (REFTELS) EXAGGERATED. IT IS TRUE LEBANESE BROUGHT INFLATIONARY PRESSURES ON CONSUMABLES, HOUSING AND SERVICES, BUT ONE MUST REMEMBER THEY PAID

FOR THEM WITH HARD CURRENCY, I.E., AS IF THEY WERE
EXPORTED, EVEN FACT SYRIANS SUBSIDIZE MANY CONSUMABLES
SHOULD NOT BE EXAGGERATED; MOST STATES SUBSIDIZE EXPORTS.

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C O N F I D E N T I A L SECTION 2 OF 2 DAMASCUS 7263

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IN SOME SECTORS THERE WERE LOCAL CURRENCY AND SUPPLY
DISLOCATIONS BUT BOP EFFECTS WERE TO THE GOOD. REFUGEES
DID CAUSE SERIOUS INFLATIONARY PRESSURES EARLY IN 1976,
POSSIBLY 2-3 PERCENT PER MONTH, BUT SITUATION NOW STABILIZING
AND DUGER DOUBTS PRESENT INFLATION EXCEEDS ONE PERCENT MONTHLY.
ONLY SERIOUS NEGATIVE EFFECT OF LEBANESE CRISIS FOR SYRIA
HAS BEEN ERRATIC OPENING AND CLOSING SAUDI AID SPIGOT.
IT IS GALLING TO ASAD TO HAVE TO ACCEPT FACT THAT
ONE METER ADVANCE IN LEBANON MAY COST ONE THOUSAND DOLLARS
A METER IN CURTAILMENT OF SAUDI AID. NEVERTHELESS, HE
HAS SWALLOWED PRIDE AND NOW IS MAKING SUFFICIENT NUMBER
OBEISANCES IN DIRECTION RIYADH. DUGER BELIEVES LEBANESE
CRISIS SOLUTION NOT YET IN SIGHT BECAUSE OF UNCOMPROMISING
SELF-DESTRUCTIVE CHARACTERISTICS OF LEBANESE LEADERSHIP
OF ALL SECTS. INTERNATIONAL AND DOMESTIC POLITICAL PROBLEMS
CAUSED DAMASCUS BY LEBANESE CIVIL WAR ARE REAL, HOWEVER,

AND ASAD AND SYRIA STILL IN DANGER. NEVERTHELESS,
SAUDIS BRINGING PRESSURE TO BEAR ON BOTH CAIRO AND DAMASCUS
TO MEND FENCES.
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6. ACCORDING DUGER, SOVIET PRESSURE ON SYRIA IS INHIBITED
BY SEVERAL FACTORS: SOVIETS HAVE INITIATED NO NEW PROJECTS
SINCE COMPLETION EUPHRATES DAM AND ARE NOW WORKING
EITHER ON NON-ESSENTIAL PROJECTS (SIC) (SUCH AS RURAL
ELECTRIFICATION) OR IN FIELDS WHERE THEY CAN BE EASILY
REPLACED (E.G., OIL FIELDS WHERE ROMANIANS STAND READY
TO REPLACE SOVIETS.) ASIDE FROM MILITARY ASSISTANCE,
SOVIETS THUS LACK GOOD PRESSURE POINTS. DUGER SCOFFED
AT ECONOFF SUGGESTION SOVIETS MIGHT DO ANYTHING MORE
THAN IRRITATE SYRIANS BY WAY THEY HAVE HANDLED SYRIAN-
SOVIET CLEARING ARRANGEMENT DENOMINATED IN STERLING.
SOVIETS HAD REFUSED, PRIOR TO LEBANESE CRISIS, TO LET
SYRIA ADJUST FOR FALL IN STERLING. DUGER DESCRIBED THIS
AS TYPICAL RUSSIAN AVARICE WHICH REGULARLY AND BLINDLY
APPLIED TO DETRIMENT OF SOVIET POLICY OBJECTIVES. (DETAILS
TO BE REPORTED SEPTEL.) MILITARY PROGRAMS EVEN LESS LIKELY
TO BE USED AS PRESSURE. SYRIA IS SOVIET'S LAST FOOT IN
MIDDLE EAST DOOR. IF MOSCOW SERIOUSLY OFFENDS SYRIAN
MILITARY, IT MAY BE BEST NEWS DASSAULT HAS HEARD IN YEARS.
DUGER CONCLUDED WITH GENERAL DESCRIPTION RUSSIAN INABILITY
TO DEAL WITH ARABS ON INTELLIGENT TERMS.

7. ARAB AID TO SYRIA, DUGER CLAIMS, NOW PICKING UP AGAIN
MONEY AVAILABLE AND ONLY KHULAYFAWI'S POLICY MENTIONED ABOVE
DELAYS SPENDING THAT MONEY. NEXT YEAR'S DEVELOPMENT BUDGET,
IN DUGER'S VIEW, SHOULD BE BETWEEN 6 AND 10 BILLION SYRIAN
POUNDS - PROBABLY CLOSER TO SMALLER FIGURE. ASAD IS NOW
MAKING PROPER NOISES TO KEEP SAUDIS HAPPY AND BARRING AN
UNFORESEEN POLITICAL DISASTER, IT IS NOT UNREASONABLE
TO EXPECT MINIMUM US\$500 MILLION ARAB AID TO SYRIA IN
CALENDAR YEAR 1977 IN ADDITION TO SMALLER FIGURE DISBURSED
BUT NOT SPENT ON DELAYED PROJECTS THIS YEAR.

8. COMMENT: ADDRESSEES WILL NOT FRENCH VIEW AT
CONSIDERABLE VARIANCE WITH MUCH OF PREVIOUS REPORTING
THIS POST, PARTICULARLY WITH REFTEL. NONETHELESS, THIS
IS A CONTRASTING VIEW WORTHY OF CONSIDERATION, NOT ONLY
BECAUSE DUGER IS A PROFESSIONAL WITH EXPERIENCE IN ARAB
WORLD, BUT BECAUSE FRENCH REMAIN WELL CONNECTED IN SYRIA.
THE FRENCH DIFFER IN METHODOLOGICAL APPROACH BUT THEIR
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VIEWS SHOULD NOT BE DISCOUNTED. FIRST, WE FEEL THERE IS LITTLE ARGUMENT THT SYRIAN LONG-TERM ECONOMIC PROSPECTS, ASSUMING POLITICAL STABILITY, ARE GOOD. SAUDIS AND KUWAITIS IN LONG RUN MAY SEE THEIR ADVANTAGE IN SYRIAN TRANSIT TRADE AS IT IS ALSO TO THEIR ADVANTAGE TO SUPPORT FRIENDLY REGIME HERE. FURTHER, THERE ARE LONG-TERM PROSPECTS IN SYRIAN AGRICULTURE THAT CERTAIN TO ATTRACT INVESTMENT. IN SHORT RUN, DUGER SEES BOP ADVANTAGES TO SYRIA THAT SYRIAN GOVERNMENT (AND THIS POST) MAY HAVE DISCOUNTED IN FACE OF SEVERE BUDGETARY STRAIN WHICH REMAINS, HOWEVER, A LOCAL CURRENCY STRAIN. SYRIAN CENTRAL BANK ON THIS POINT SEEMS TO CORROBORATE FRENCH ANALYSIS, BUT NEITHER WE NOR DUGER HAVE BEEN PRIVILEGED WITH HARD DATA TO MAKE THIS ASSUMPTION WITH ANY CONFIDENCE. INFLATIONARY PRESSURES ARE SERIOUS BUT TEY HAVE NOT RESULTED, ACCORDING TO DUGER, IN FOREIGN EXCHANGE PRESSURES. SECONDLY, SYRIAN APPROACH TO INFLATIONARY PRESSURE IS SOUND, THEY DAMPEN CONSUMPTION WITH HIGH IMPORT DUTIES AND MAKE HEAVY INVESTMENTS TO EXPAND PRODUCTIVE CAPACITY.

9. OUR BASIC DIFFERENCE WITH THE FRENCH VIEW IS ON THE STATUS OF SYRIAN FOREIGN EXCHANGE RESERVES. THIS IS ONE OF MOST TIGHTLY HELD SECRETS IN DAMASCUS AND OUR CONTACTS REGULARLY CLAM UP WHEN WE BROACH SUBJECT. HOWEVER, MINECON IMADI HINTED TO AMBASSADOR BEST SOURCE FOR ACQUIRING DATA ON FX POSITION OF SYRIA WOULD BE THE INTERNATIONAL BANKING COMMUNITY IN NEW YORK, PARTICULARLY CHASE MANHATTEN AND FNCB.

10. FINAL COMMENT: WHILE WE FIND FRENCH VIEW INTERESTING AND WORTHY OF NOTE, WE FIND BOTH THE FRENCH AND OURSELVES IN A WONDERLAND OF SPECULATION BASED ON DIFFERING AND ELUSIVE OBSERVATIONS OF THE SAME PHENOMENA. FOR CERTAIN, NEITHER WE NOR THE FRENCH HAVE SUFFICIENT HARD FACTUAL DATA UPON WHICH TO MAKE TO MAKE OUR ANALYSIS OF THE SITUATION THAT WOULD LEAD TO CONFIDENT CONCLUSIONS.
MURPHY

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